



10 Year Economic Report Card

Date: May 1, 2008

Student Name: Province of Manitoba

Subject	Grade
Economic Growth: <i>Manitoba has grown below the Canadian average over the past ten years. Less government intervention and lower taxes are needed in order to allow the economy to flourish.</i>	C-
Unemployment: <i>Manitoba has had one of the lowest unemployment rates in the country since 1999. However, the departure of many job-seeking Manitobans have skewed the results.</i>	A
Personal Income Taxes <i>On average, Manitobans pay some of the highest income tax rates in the country. Manitoba's low cost of living can only be enjoyed if people have money to spend.</i>	F
Corporate Income Taxes: <i>Great progress has been made on the small business tax rate and the capital tax. More work needs to be done on the general rate and the M&P rate.</i>	C+
Dependency: <i>Manitoba has never been more dependent on financial aid from AB, B.C., ON and SK. Young Manitobans can no longer joke about Saskatchewan being "the gap". We need their aid.</i>	D
Debt: <i>Paying down the debt does not appear to be the "cool" thing to do for this government. Much more work is need in this area.</i>	C-
Spending: <i>The Provincial Government has spent like a vintage Imelda Marcos over the last while. Unfortunately, the taxpayers of Manitoba have to fund their spending addiction.</i>	D

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10 Year Economic Report Card: Province of Manitoba

Introduction:

Businesses and organizations often conduct ten year reviews in order to evaluate their progress and compare their track record with competitors. The purpose of the *10 Year Economic Report Card: Province of Manitoba* is to evaluate the province's progress over the past ten years and to compare Manitoba's track record with other Canadian provinces. Real GDP, the unemployment rate, personal income taxes, corporate income taxes, debt, per capita spending and a dependency index were compared from 1999-2008.

Economic Growth:

Manitoba's economy grew slower than the Canadian provincial average over the last ten years. According to 1999-2006 Statistics Canada data and 2007-08 Conference Board of Canada forecasts, the average rate of growth for Manitoba's economy from 1999-2008 is expected to be 2.5%. However, the Canadian provincial average over the same time period is expected to be 3.0%.

1999-2008 Real GDP

	1999	2000	2001	2002	2003	2004	2005	2006	2007f	2008f	AVG
NL	6.4	5.9	0.6	15.6	6.4	-1.5	0.4	3.1	5.0	1.5	4.3
AB	2.1	6.5	2.0	1.7	3.2	5.6	5.3	6.7	4.0	3.3	4.0
BC	3.0	4.5	1.1	3.2	2.6	4.1	4.3	3.6	3.0	3.1	3.3
ON	7.7	6.1	1.4	2.5	1.6	2.9	2.6	2.3	1.9	2.1	3.1
QC	6.4	4.5	1.3	2.5	1.3	2.7	2.1	1.9	2.7	2.4	2.8
NS	5.8	3.5	3.5	4.2	1.8	1.5	1.5	1.0	2.3	2.6	2.8
NB	6.2	2.6	1.7	4.0	2.6	1.6	0.2	3.1	2.7	2.2	2.7
MB	1.4	4.5	0.8	1.7	1.2	2.7	2.7	3.4	2.9	3.7	2.5
PEI	3.8	2.0	-0.2	4.6	2.2	3.0	1.4	2.3	1.7	1.9	2.3
SK	1.0	2.4	-1.5	-0.8	4.5	3.8	3.3	-0.3	2.7	3.6	1.9
										CDN AVG	3.0

Source: Statistics Canada 1999-2006 CanSim Data, 2007-08 Conference Board of Canada forecasts

Unemployment:

Over the past ten years, Manitoba has consistently had one of the lowest unemployment rates in the country. Compared with its provincial neighbours, Manitoba's unemployment rate is expected to be the second lowest from 1999-2008. Only Alberta has had a lower unemployment rate during this time period.

Unemployment Rate 1999-2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008f	AVG
NF	16.9	16.7	16.1	16.7	16.5	15.7	15.2	14.8	13.6	12.6	15.5
PEI	14.3	12.1	11.9	12	11	11.3	10.8	11	10.3	10.4	11.5
NB	10.2	10	11.1	10.2	10.3	9.8	9.7	8.8	7.5	8.5	9.6
NS	9.6	9.1	9.7	9.6	9.1	8.8	8.4	7.9	8	7.9	8.8
QC	9.3	8.5	8.8	8.6	9.1	8.5	8.3	8	7.2	7.3	8.4
BC	8.3	7.1	7.7	8.5	8	7.2	5.9	4.8	4.2	4.3	6.6
ON	6.3	5.8	6.3	7.1	6.9	6.8	6.6	6.3	6.4	6.4	6.5
SK	6.1	5.1	5.8	5.7	5.6	5.3	5.1	4.7	4.2	4.1	5.2
MB	5.6	5	5.1	5.1	5	5.3	4.8	4.3	4.4	4.3	4.9
AB	5.7	5	4.6	5.3	5.1	4.6	3.9	3.4	3.5	3.4	4.5
										AVG	8.1

Source: Statistics Canada 1999-2007 CanSim Data, March 2008 Statistics Canada data

However, contributing to Manitoba's low unemployment rate is the continuous outflow of job-seeking citizens to greener pastures in Ontario, B.C., Alberta and now Saskatchewan. Almost every Manitoban has a few 403's, 416's, 780's and 604's in their phone book. In fact, according to Statistics Canada's latest interprovincial migration survey, between 2001 and 2006, 57,330 people moved from Manitoba to another province in Canada. Approximately 45,000 of the 57,330 former Manitobans moved to either B.C., Alberta or Ontario. However, during the same period, only 36,585 people moved to Manitoba from another province in Canada. Perhaps high taxes have something to do with it.

Personal Income Taxes:

Although the NDP Government has traditionally claimed to be the 'party for the poor', actions speak louder than words. According to Ernst & Young data, Manitobans earning \$20,000 a year will pay more income taxes than any where else in Canada. The same can be said for individuals earning \$30,000 per year. At the \$40,000 a year income level, Manitobans are just \$19 below the highest income tax bill for that income level in Canada (Quebec).

Personal Income Taxes - \$20,000/yr

Province	1999	2008
MB	(4) \$3,704	\$2,864
NS	(7) \$3,486	\$2,788
SK	(3) \$3,722	\$2,776
PEI	(6) \$3,558	\$2,764
NL	(2) \$3,794	\$2,642
NB	(5) \$3,592	\$2,465
QC	(1) \$4,525	\$2,459
ON	(10) \$3,132	\$2,245
AB	(9) \$3,333	\$1,944
BC	(8) \$3,356	\$1,843

Personal Income Taxes - \$30,000/yr

Province	1999	2008
MB	(4) \$6,513	\$5,454
SK	(3) \$6,594	\$5,376
QC	(1) \$8,132	\$5,312
NB	(5) \$6,371	\$5,246
PEI	(6) \$6,311	\$5,244
NS	(7) \$6,271	\$5,243
NL	(2) \$6,729	\$5,012
AB	(9) \$5,884	\$4,444
ON	(10) \$5,554	\$4,350
BC	(8) \$5,953	\$4,150

** Federal taxes included (same value in each province)*

Overall, when lower income Manitobans compare their income tax bills with their provincial neighbours, they were better off ten years ago. Conversely, individuals earning \$70,000 a year are now moderately better when compared with income tax bills in other provinces. In 1999, Manitobans earning \$70,000 per year paid the fourth highest amount in Canada. Today, they pay the sixth highest amount in Canada, but are still significantly higher than our Ontario and Western Canadian neighbours.

Personal Income Taxes - \$70,000/yr

Province	1999	2008
QC	\$27,247	\$19,899
NS	\$23,493	\$19,657
NB	\$23,861	\$19,431
PEI	\$23,981	\$19,108
NL	\$25,409	\$19,027
MB	\$24,370	\$18,978
SK	\$24,861	\$18,641
AB	\$22,096	\$16,692
ON	\$21,664	\$16,191
BC	\$22,911	\$15,453

Personal Income Taxes - \$100,000/yr

Province	1999	2008
QC	\$42,901	\$33,219
NS	\$38,107	\$32,613
NB	\$38,390	\$32,040
MB	\$39,055	\$31,767
PEI	\$38,845	\$31,718
NL	\$41,278	\$31,546
SK	\$40,096	\$30,110
ON	\$36,290	\$28,744
AB	\$35,645	\$27,261
BC	\$38,331	\$26,579

** Income tax calculations include Federal taxes (equal in each province)*

As incomes rise to \$100,000 a year, Manitobans still pay the fourth highest amount in Canada (same position in 1999).

Most troubling when comparing provincial income tax bills is that Manitobans pay significantly higher income tax bills than citizens in provinces that we directly compete with.

For example, a teacher earning \$60,000 a year in Manitoba will pay almost \$3,000 more in income taxes than a teacher earning \$60,000 a year in Alberta. At the \$100,000 a year level, Manitobans will pay more than \$5,000 more in income taxes than British Columbians with similar incomes.

“Bracket creep” is a major contributor of Manitoba’s personal income tax troubles. Bracket creep occurs when tax brackets aren’t adjusted for inflation. In other words, a fast food restaurant manager making \$28,000 per year ten years ago was below the \$29,590 middle income tax bracket. Assuming his/her salary has increased at the rate of inflation, or by approximately 2% per year, to \$34,131 today, they are now considered “middle income” earners as the provincial government has only raised the middle income tax bracket to \$30,544.

Manitoba’s “high income” tax bracket is also a victim of bracket creep. Over the past ten years, it has increased from 59,180 to \$66,000 – far below the rate of inflation. The result is that middle income individuals such as teachers, police officers, nurses and middle management employees are now being taxed at the same rate as millionaires residing in Manitoba. Artificially pushing Manitobans into higher tax brackets is essentially a form of back door taxation. That is why most other provinces, with the exception of Nova Scotia and Manitoba, have stopped it.

Although the NDP Government likes to trumpet our low cost of living, it can only be taken advantage of when individuals actually have disposable income.

Corporate Income Taxes:

Oddly enough, the NDP government has had a better track record of lowering corporate taxes than it has with lowering taxes for lower income Manitobans. In 1999, small businesses in Manitoba paid the highest corporate income tax rate in the country. Today, they pay the lowest rate.

Small Business Tax Rate

Province	1999	2008	% Change
QC	5.8	8.0	39.1%
ON	8.5	5.5	-35.3%
NB	6.0	5.0	-16.7%
NS	5.0	5.0	0.0%
NL	5.0	5.0	0.0%
SK	8.0	4.5	-43.8%
BC	7.3	3.5	-51.7%
PEI	7.5	3.2	-57.3%
AB	6.0	3.0	-50.0%
MB	9.0	2.0	-77.8%

Source: Respective 1999, 2008 Provincial Budgets

Unfortunately, larger businesses have not seen the same degree of tax relief that small businesses have. Despite reductions to both the manufacturing and processing rate and the general rate, Manitoba businesses in those tax categories still pay higher rates than most of their western neighbours, not to mention neighbouring businesses in the U.S.

Although the provincial government’s commitment to eliminating the capital tax is a welcome move, larger Manitoba businesses have the dubious distinction of paying the payroll tax. A “tax on jobs”, the payroll tax kicks in when the payroll of a Manitoba business passes the \$1.25 million mark. Some provinces acknowledge the success of growing businesses, in Manitoba, the government awards them with a new tax to pay. The payroll tax is hardly an incentive to grow ones business. Perhaps that’s why only three other provinces have payroll taxes.

Manufacturing & Processing Rate

Province	1999	2008	% Change
NS	16.0	16.0	0.0%
PEI	7.5	16.0	113.3%
MB	17.0	13.0	-23.5%
NB	17.0	13.0	-23.5%
ON	13.5	12.0	-11.1%
QC	8.9	11.4	-28.1%
BC	16.5	11.0	-33.3%
SK	10-17	10.0	-17.6%
AB	14.5	10.0	-31.0%
NL	5.0	5.0	0.0%

General Rate

Province	1999	2008	% Change
NS	16.0	16.0	0.0%
PEI	16.0	16.0	0.0%
ON	15.5	14.0	-9.7%
NL	14.0	14.0	0%
MB	17.0	13.0	-23.5%
NB	17.0	13.0	-23.5%
SK	17.0	12.0	-29.4%
QC	8.9	11.4	-28.1%
BC	16.5	11.0	-33.3%
AB	15.5	10.0	-35.5%

Source: Respective 1999, 2008 Provincial Budgets

Dependency:

Each year provincial governments across the country receive handouts from the federal government to help pay for health care and other social programs. In addition to those handouts, some less fortunate provinces receive “equalization payments” from wealthier provinces known as “have” provinces.

Manitoba is considered a “have not” province and will receive approximately \$2.1 billion in combined handouts from B.C., Ontario, Alberta and Saskatchewan in 2008 alone. This is on top of the \$1.5 billion it will receive from the federal government this year. In total, handouts from other governments will account for 36.7% of the provincial government’s revenue for 2008 (~\$3.6 billion out of ~\$9.9 billion). The “dependency index” demonstrates how dependent provinces are for handouts from other governments.

Dependency Index

Province	1999	2008	% Change
PEI	39.3%	41.1%	1.9%
NB	39.4%	37.1%	-2.4%
MB	28.2%	36.7%	8.5%
NS	42.7%	31.0%	-11.7%
NL	44.8%	28.0%	-16.8%
QC	15.3%	21.7%	6.4%
ON	9.6%	17.0%	7.5%
BC	11.7%	15.1%	3.4%
SK	19.7%	14.8%	-4.9%
AB	8.2%	9.8%	1.7%

** Nova Scotia figures based on the 2007 budget*

As you can see, Manitoba's dependency rate has increased from 28.2% in 1999 to 36.7% in 2008. Not only has Manitoba's increase in dependency increased over the last ten years, it was the highest increase in the country. The province needs to rein in its insatiable appetite for spending.

Debt:

According to Statistics Canada's latest data, Manitoba's net financial debt increased faster than any other province between 1999-2006. The province's net financial debt rose from \$9.1 billion in 1999 to \$11.9 billion in 2006. The picture is not much better if one compares the "General Government Programs" debt line in the budget. From 2003/04-2008/09, general debt is expected to decrease from \$6.5 billion to \$6.3 billion. At that rate, the province will have paid off its general debt some time around the year 2153.

Overall, the province's lack of interest in the "subject" of debt repayment means that more than \$800 million of the government's operating budget will be wasted on debt servicing costs (~\$2.2 million/day). The Province needs to develop an aggressive debt repayment plan immediately.

Net Financial Debt	1999	2000	2001	2002	2003	2004	2005	2006	% Change
MB	9,112	9,050	9,277	9,969	10,217	11,047	11,428	11,858	30.1%
NS	9,158	10,158	11,051	11,286	11,888	11,730	11,516	11,775	28.6%
PEI	1,003	1,034	1,021	1,082	1,150	1,291	1,251	1,287	28.3%
NL	8,150	8,389	8,702	9,082	9,511	9,938	10,011	9,600	17.8%
QC	91,148	90,161	88,122	91,717	95,330	97,647	99,874	103,434	13.5%
BC	15,162	16,123	15,448	16,554	20,119	21,255	19,201	16,221	7.0%
ON	108,761	107,409	103,140	103,510	102,611	105,415	110,489	112,408	3.4%
NB	5,546	6,393	6,151	5,998	5,921	5,909	5,687	5,706	2.9%
SK	10,017	10,037	9,147	9,632	9,877	10,134	9,236	8,558	-14.6%
AB	391	-2,504	-9,983	-9,118	-10,575	-14,345	-19,661	-27,609	-7161.1%

Source: Statistics Canada Cansim Table 385-0014

Spending:

Given the nature of the diverse range of services offered by provincial governments in Canada, interprovincial comparisons are difficult to calculate. Such comparisons are further complicated by provincial accounting changes which occurred during the last ten years (adoption of GAAP). Further, expenditure comparisons should also focus not just on dollars spent, but results provided to the taxpayer. Further research is required to provide a fair interprovincial spending comparison.

However, looking at the NDP government's own spending habits, it is easy to see that money is no object. After all, 36.7% now comes from other governments. Since the 2003/04 budget, expenditures have risen to the point that 2008/09 budget expenditure estimates are almost \$2 billion above inflation.

Spending Comparison (Actual vs Rate of Inflation)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Budget Expenditure	9.236	9.578	10.331	10.490	11.832	12.227
Budget Expenditure @ Inflation	9.236	9.420	9.675	9.868	10.066	10.267
Difference		0.157	0.655	0.621	1.766	1.959
MB Inflation Rate		2%	2.7%	2%	2%	2%

** All expenditure figures are in billions*

Sources: 2008 Provincial Budget, 2003-2007 Statistics Canada Inflation Rate Data

Conclusion:

Over the last ten years, Manitoba has essentially been transformed into "Manitobakstan". A land that is full of government involvement in all aspects of the economy, Manitobakstan supports its insatiable spending appetite through one of the highest tax burdens in the country and is extremely dependent on aid from other provinces. Given the government's growing involvement in virtually every aspect of our lives, it is easy to see why the province has grown below the national average over the last ten years.

Recommendations:

Fortunately, there is hope. Just as Russia has embraced many aspects of the free market system, Manitobakstan can too. The Province of Manitoba should immediately pursue the following five measures to improve our province's performance over the next ten years.

- 1) Rein in Spending** – If the provincial government had have grown 2003/04 budget spending by the rate of inflation, the taxpayers of Manitoba would save approximately \$1.7 billion per year. The NDP government should reduce expenditures and ensure that future spending does not increase at a rate that is greater than inflation.

The \$3 million increase to politicians and their staff since 2007 alone is one place they could look first for savings.

- 2) **Competitive Personal Income Taxes** – bracket creep should be addressed immediately and fixed, retroactive to 2003. Along with raising the basic personal exemption, the province should bring all income taxes in line with other provinces.
- 3) **Competitive Corporate Taxes** – the manufacturing & processing rate and the general rate should be brought in line with other provinces. Conversely, “corporate welfare” programs such as the Manitoba Industrial Opportunities Program should be scrapped immediately.
- 4) **Free Market** – the NDP government should restrain its “fathers knows best” tendencies and let the free market flourish. The government should stop buying up private health clinics and dictating rules in the free market – such as the forced unionization of employees working on the floodway expansion.
- 5) **Debt** – the debt should be tackled aggressively. Over \$800 million per year (approx. \$2.2 million/day) is wasted on debt servicing costs this year alone.

If the government tackled the five recommendations above, Manitoba would be a much better place in 2018.

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